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Comprehensive audit of the governance structure and related processes of the United Nations Joint Staff Pension Board

Report of the Office of Internal Oversight Services

Summary

Pursuant to General Assembly resolution 72/262 A, the Office of Internal Oversight Services (OIOS) has conducted a comprehensive audit of the governance structure and related processes of the United Nations Joint Staff Pension Board.

The audit showed that the Board needed to strengthen its governance in critical areas such as: (a) achieving fair and equitable representation of member organizations on the Board; (b) entrusting its Standing Committee with the power to provide more effective oversight over the operations of the United Nations Joint Staff Pension Fund; (c) separating the functions of the Secretary and the Chief Executive Officer to ensure the Board's independence from the management of the Fund; (d) implementing effective performance management to promote a culture of accountability; and (e) setting the appropriate tone with regard to integrity and ethical values.

The Board also needed to take additional steps including: (a) facilitating the transparent and democratic representation of beneficiaries; (b) retiring its Assets and Liabilities Monitoring Committee, which has been duplicating the work of the Investments Committee and the Committee of Actuaries; (c) ensuring that the secretariat of the Fund utilizes resources in accordance with legislative decisions; and (d) undertaking proper succession planning for the positions of Chief Executive Officer and Deputy Chief Executive Officer to allow adequate time for a competitive selection process.

The Board accepted seven recommendations but did not accept six others, including two critical recommendations concerning: (a) the fair and equitable representation of member organizations on the Board; and (b) the separation of functions of the Secretary of the Board and the Chief Executive Officer of the Fund to

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ensure the Board's independence from the management of the Fund. OIOS maintains that these two recommendations relate to critical issues concerning the Board's governance structure. In the Board's response, it was indicated that four of the six unaccepted recommendations (including the two critical recommendations) were acceptable to the representatives of the United Nations participants but not to the other constituent groups on the Board.

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I. Introduction

1. Pursuant to General Assembly resolution 72/262 A, the Office of Internal Oversight Services (OIOS) conducted a comprehensive audit of the governance structure and related processes of the United Nations Joint Staff Pension Board from February to May 2018. The objective of the audit was to: (a) determine whether the governance structure of the Board and related processes were optimally designed and operating effectively; and (b) assess the checks and balances between the Board and the leadership of the United Nations Joint Staff Pension Fund.

2. The audit scope included a review of: (a) the structure, composition and functions of the Board, including its committees and working groups; (b) the regulations, rules, policies and procedures relating to the governance of the Fund; (c) the decision-making and consultative processes through which the Board discharges its responsibilities; and (d) related processes and activities of the Fund. The audit methodology included interviews with process owners and stakeholders, a review of relevant documentation, questionnaires/surveys, analytical reviews and tests of controls. The audit did not include a review of the General Assembly's role in the overall governance structure. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

3. OIOS considers recommendations 2, 5, 8, 9 and 10 to be critical, and recommendations 1, 3, 4, 6, 7, 11, 12 and 13 to be important.

II. United Nations Joint Staff Pension Board

A. Roles and responsibilities of the Board

4. In its resolution 248 (III) of December 1948, the General Assembly established the United Nations Joint Staff Pension Fund and decided that the Fund was to be administered by the Board, whereas the investment of the Fund's assets was to be decided upon by the Secretary-General, after consultation with an investments committee and after having heard any observations or suggestions by the Board concerning investment policy. Article 4 (a) of the regulations of the Fund states that the Fund shall be administered by the Board, a staff pension committee for each member organization, and a secretariat to the Board and to each such committee. The Board is accountable to the General Assembly for its primary responsibility of serving the Fund's participants and beneficiaries. Pursuant to the Fund's accountability statement, the Board is to play the role of an oversight, policymaking and decision-making body of the Fund secretariat in pension administration. According to the Fund regulations and rules, the responsibilities of the Board include: (a) reporting to the General Assembly and member organizations on financial and operational matters relating to the Fund; (b) making recommendations to the Secretary-General on the appointment of the Fund's Secretary/Chief Executive Officer and the Deputy Secretary/Deputy Chief Executive Officer; and (c) monitoring the Fund's solvency through actuarial valuation. The Board is also ultimately responsible for establishing and maintaining an effective internal control system and setting the Fund's expectations with respect to integrity and ethical values.

B. Terms of reference, competency requirements and performance evaluation

5. In accordance with good governance practices, it is recommended that, given the considerable responsibility and decision-making authority vested in them, boards

and their committees should have clear terms of reference for their members that define their roles and responsibilities, desirable competencies and performance expectations. While the Board has established terms of reference for its various committees, there have been no specific terms of reference for Board members. Some responsibilities are described in the Fund's regulations and rules, but these do not cover aspects such as desirable competencies and performance evaluation.

6. The Board's members represent one of three constituent groups: (a) governing bodies (the General Assembly of the United Nations and the governing bodies of its other member organizations); (b) executive heads (the Secretary-General of the United Nations and the chief administrative officers of its other member organizations); and (c) participants in member organizations. The establishment of formal terms of reference, including the desirable competencies, may help constituents to make better informed choices concerning their representatives on the Board. The absence of clear terms of reference may undermine consistency in performance and lead to misinterpretations regarding issues such as term limits and conflict of interest.

7. Many private and public organizations set some post-employment restrictions on former employees for specific periods of time, such as those set out in the Secretary-General's bulletin concerning staff involved in the procurement process (ST/SGB/2006/15), to ensure that their positions of authority, which allow them access to confidential or privileged information, are not put to improper use after their separation. Currently, there are no restrictions on former staff of the Fund from becoming members of staff pension committees or representatives of the Federation of Associations of Former International Civil Servants (FAFICS) on the Board after their separation from the Fund. The Board prevented two staff members of the Fund secretariat, who had been elected by participants through a process conducted by the United Nations Staff Union, from attending its 2017 session on the grounds that such participation gave rise to conflict of interest. However, that decision was vacated by the United Nations Appeals Tribunal.

8. However, there were no restrictions or time limits on former staff (in particular senior managers) of the Fund secretariat or the Office of Investment Management from becoming Board members after their separation from the Fund, and no restrictions or limitations on former Board members from potentially seeking regular employment with the Fund. The Board needs to consider these aspects and establish appropriate rules.

9. Since 2010, the Board has used surveys to evaluate its performance. The surveys were primarily meant to help to identify areas of expertise and to determine whether the Board or its individual members were lacking certain critical skills. However, the survey design did not assist in identifying the areas of expertise or the lack thereof. For example, in the survey conducted in 2016, 41 per cent of respondents agreed that the ongoing process could identify the expertise needed for the Board but did not indicate specific areas of expertise or competency that needed improvement. The benefits of such self-evaluation would be limited unless specific areas for improvement are identified and there is follow through in that regard.

Recommendation 1

The Board should: (a) establish clear terms of reference for its members outlining, inter alia, the desirable competencies for their appointment and any appropriate restrictions or limitations; and (b) review its current methodology for self-evaluation to make the exercise more effective and useful.

Comments of the Board. The Board did not accept recommendation 1 (a), stating that the membership of the Board was determined in accordance with the regulations and rules of procedure and that the procedures currently followed by constituent groups could be strengthened to ensure that their representatives fulfil their fiduciary and other responsibilities. The Board accepted recommendation 1 (b).

Comments of OIOS. OIOS remains of the view that the Board should establish clear terms of reference for its members in accordance with good governance practices.

C. Size and composition of the Board

10. Article 5 of the Fund's regulations states that the Board shall consist of 33 members and have a tripartite structure that allows for equal representation of the governing bodies, the executive heads and the participants.

11. In 2006, after considering various options, a working group of the Board recommended that the Board consist of 21 members. The working group put forward a second option to retain the existing 33-member Board if the recommended size of 21 was not accepted. Eventually, the Board decided to maintain its size at 33 members and adopted annual rotation schedules for Board and Standing Committee membership for the next five years. Member organizations that did not have a seat on the Board were not included in the rotation schedule. The Board's decision in 2004 that "any member organizations already with a seat on the Board should not lose that seat even if its participant population decreased over time" has inhibited an objective review and adjustment of the Board's size to assure economy, efficiency and effectiveness in its operations.

12. In addition to the 33 Board members, there are 29 alternate members, 25 representatives accredited by the staff pension committees of member organizations, and 6 representatives of FAFICS, along with observers and the secretaries of the staff pension committees. Representatives of the staff pension committees and FAFICS enjoy all the rights of Board members except the right to vote. It is worth noting that there was no evidence of any decision having been made by the Board by vote in the past five years. Since the Board has been making its decisions by consensus, the non-voting members wield virtually the same powers as voting members. Also, alternate members are allowed to attend the Board's sessions, even when their respective primary members are in attendance. Therefore, it appears that the Board's decisions are made by not just 33 members with voting rights, but by 93 "de facto members" (33 Board members, 29 alternates, 25 staff pension committees representatives, 4 FAFICS representatives and 2 FAFICS alternates) even though the Fund's rules of procedure state that Board decisions shall be taken by a majority of the members present and voting.

D. Representation of Fund participants and beneficiaries on the Board

1. Representation of participants

13. The size of the Board has increased over the years, from 12 members in 1949 to 33 in 1987. By its resolution 42/222 of 21 December 1987, the General Assembly approved a 33-member Board comprising 12 members appointed by the United Nations and 21 members appointed by other member organizations. When that was implemented with effect from 1 January 1989, the United Nations had 27,740 active participants (or 51 per cent of the total). In its resolutions 42/222, 46/192, 57/286, 59/269 and 61/240, the General Assembly has repeatedly emphasized the importance of the fair and equitable representation of participating organizations in the Board and its Standing Committee, to reflect the actual distribution of active participants in the Fund, present and future trends in Fund participation, and the changing nature of the Fund's member organizations.

14. Table 1 below shows the progressive increase in the number of active participants in the Fund, from 54,006 in 1988 to 128,262 in 2016.

Table 1
Number of Fund participants by member organization, 1988–2016

Member organization	*1988*	*1995*	*2002*	*2009*	*2016*
United Nations	27 740	44 059	56 287	82 576	87 111
ILO	3 098	2 823	2 863	3 642	3 706
FAO	6 909	5 735	5 447	6 011	10 318
UNESCO	2 908	2 561	2 437	2 602	2 412
WHO	5 887	6 125	8 181	11 029	10 724
IAEA	1 865	2 146	2 168	2 245	2 681
UNIDO	1 727	1 455	821	825	669
IOM	–	–	–	3 134	4 624
Others	3 872	3 804	4 511	5 516	6 017
Total	**54 006**	**68 708**	**82 715**	**117 580**	**128 262**

Abbreviations: FAO, Food and Agriculture Organization of the United Nations; IAEA, International Atomic Energy Agency; ILO, International Labour Organization; IOM, International Organization for Migration; UNESCO, United Nations Educational, Scientific and Cultural Organization; UNIDO, United Nations Industrial Development Organization; WHO, World Health Organization.

15. The current representation of member organizations on the Board is shown in table 2 below.

Table 2
Representation of member organizations on the Board, as at 31 December 2016

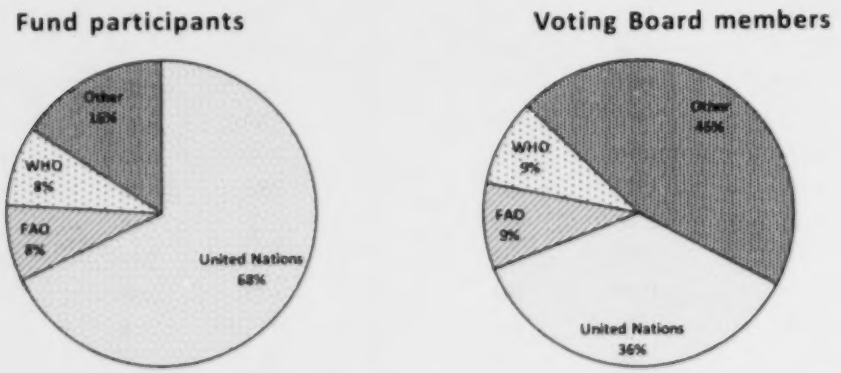
Member organization	*Year of admission*	*Number of participants*	*Number of Board seats (since 1988)*	*Percentage of total participants*	*Percentage of seats on the Board*	*Average number of participants represented by a Board member*
United Nations		87 111	12	67.92	36.36	7 259
WHO	1949	10 724	3	8.36	9.09	3 575
FAO	1950	10 318	3	8.04	9.09	3 439
ILO	1953	3 706	2	2.89	6.06	1 853
IAEA	1958	2 681	2	2.09	6.06	1 341
UNESCO	1951	2 412	2	1.88	6.06	1 206
IOM	2007	4 624	0	3.61	0	
WIPO	1977	1 225	2	0.96	6.06	613
ICC	2004	1 099	0	0.86	0	
ICAO	1951	798	2	0.62	6.06	399
ITU	1960	768	1	0.60	3.03	768
UNIDO	1986	669	1	0.52	3.03	669
IFAD	1977	595	1	0.46	3.03	595
STL	2009	462	0	0.36	0	
WMO	1952	351	1	0.27	3.03	351
IMO	1959	284	1	0.22	3.03	284
ICGEB	1996	168	0	0.13	0	
WTO	1996	91	0	0.07	0	
IPU	2005	47	0	0.04	0	
ITLOS	1997	39	0	0.03	0	
ICCROM	1981	37	0	0.03	0	
ISA	1998	35	0	0.03	0	
EPPO	1983	18	0	0.01	0	
Total		**128 262**	**33**	**100**	**100**	

Abbreviations: EPPO, European and Mediterranean Plant Protection Organization; FAO, Food and Agriculture Organization of the United Nations; IAEA, International Atomic Energy Agency; ICAO, International Civil Aviation Organization; ICC, International Criminal Court; ICCROM, International Centre for the Study of the Preservation and Restoration of Cultural Property; ICGEB, International Centre for Genetic Engineering and Biotechnology; IFAD, International Fund for Agricultural Development; ILO, International Labour Organization; IMO, International Maritime Organization; IOM, International Organization for Migration; IPU, Inter-Parliamentary Union; ISA, International Seabed Authority; ITLOS, International Tribunal for the Law of the Sea; ITU, International Telecommunication Union; STL, Special Tribunal for Lebanon; UNESCO, United Nations Educational, Scientific and Cultural Organization; UNIDO, United Nations Industrial Development Organization; WHO, World Health Organization; WIPO, World Intellectual Property Organization; WMO, World Meteorological Organization; WTO, World Trade Organization.

16. As at 31 December 2016, the number of active participants of the United Nations reached 87,111 (or 68 per cent of the total). However, United Nations representation on the Board (12 seats) was only 36 per cent of the voting members, as shown in the figure below. The Board's decision in 2004 that "any member organizations already with a seat on the Board should not lose that seat even if its participant population decreased over time" caused inequitable seat distribution among member

organizations. For example, the International Criminal Court has not had a seat on the Board since its admission to the Fund in 2004, even though it has a higher percentage of participants than six other member organizations with voting rights (namely, the International Civil Aviation Organization, the International Maritime Organization, the International Telecommunication Union, the International Fund for Agricultural Development, the United Nations Industrial Development Organization and the World Meteorological Organization). As shown in table 2 above, a Board member of the United Nations represents an average of 7,259 participants, whereas a Board member of the International Maritime Organization represents an average of 284 participants. Furthermore, there has been no Board member representing the 4,624 participants of the International Organization for Migration since its admission to the Fund in 2006.

Distribution of Fund participants and voting Board members, by member organization



17. In response to requests by the General Assembly, the Board has conducted reviews of its size and composition. In 2002, the Board recommended increasing its size from 33 members to 36, with the allocation of three additional seats to the United Nations. By resolution 57/286, the Assembly took note of the Board's report and requested it to study the representation of member organizations, so as to clarify the criteria adopted for that purpose, and to submit further proposals to the Assembly at its fifty-ninth session.

18. Some of the criteria adopted by the Board while conducting its reviews were not aligned with the principle of fair representation as emphasized by the General Assembly. For example, while the review conducted in 2004 stressed that the size of the Board should be truly representative of the membership of the Fund, it also advanced the argument that the Fund was a joint venture of organizations, rather than of participants or individuals. The Board's approach has resulted in the preservation of the status quo of 1987 and, since then, the proportion of active participants of the United Nations has further increased, from 51 per cent in 1988 to 68 per cent in 2016.

19. In its resolution 61/240, the General Assembly noted that the Board had recognized that its decision to retain its current size, composition and allocation of seats did not fully respond to Assembly resolution 57/286 with respect to achieving fairer representation. The Assembly also noted that the Board had agreed to review its size and composition after it had had adequate time to assess the results of its other decisions under that item. Since then, the Board has made no further proposal to address the obvious inequity in the representation of member organizations or the appropriateness of the Board's size.

Recommendation 2

The Board should: (a) implement the General Assembly's request to submit proposals for fair and equitable representation of member organizations on the Board to reflect the actual distribution of active participants in the Fund, present and future trends in Fund participation, and the changing nature of the Fund's member organizations; and (b) implement a rotation scheme that allows eligible member organizations to share the rotating seats in a fair and equitable manner.

Comments of the Board. The Board, with the exception of the representatives of the United Nations participants, did not accept the recommendation as currently formulated and indicated that it would establish a working group to consider issues of participation, rotation and fair and equitable representation, without any presumption of outcome and taking into account the Board's previous review on the matter.

Comments of OIOS. The formulation of the recommendation was based on the wording of General Assembly resolution 57/286. The audit showed that the Board's previous review had not addressed the matter to the satisfaction of the Assembly. OIOS therefore maintains that the Board should implement the General Assembly's request to submit proposals to achieve fair and equitable representation of member organizations on the Board.

2. Representation of beneficiaries

(a) Need for democratic representation of beneficiaries

20. Representatives of Fund beneficiaries do not have full member status on the Board or its Standing Committee. Under the Fund's rules of procedure, FAFICS has been accorded official status to represent beneficiaries at meetings of the Board and its Standing Committee with the same rights as members, except the right to vote.

21. In connection with a study on its size, the Board concluded in 2006 that beneficiaries should continue to be represented on the Board. In its resolution 61/240, the General Assembly took note of the Board's decision that the costs related to two beneficiary representatives attending the Board's sessions and one beneficiary representative attending the Standing Committee's meetings would be absorbed by the Board on a provisional basis until 2008, at which time the Board would consider means for duly electing beneficiary representatives. In 2007, the Chief Executive Officer presented a note to the Board on a possible process for electing beneficiary representatives. One of the scenarios was to conduct elections (similar to the annual worldwide elections of directors of the United Nations Federal Credit Union) through an experienced vendor at an estimated cost of $50,000 to $150,000 per election. A formal nomination process was explained, whereby beneficiaries would be asked to nominate candidates to represent them.

22. However, in the above-mentioned note, the Chief Executive Officer supported the continuation of the current arrangement of representation by FAFICS instead of through the direct election of beneficiary representatives on the grounds that holding elections would not necessarily result in a higher degree of retiree participation, and that the extent of their interest in such elections would be impossible to predict. OIOS is of the view that that was a speculative conclusion that was not based on any assessment or survey of beneficiary aspirations. With web-based tools, it is possible to ascertain whether beneficiaries prefer direct election of their representatives on the Board rather than the existing arrangement of limited, indirect representation through FAFICS. In 2008, after debating the issue, the Board deferred the subject and has

since maintained the status quo. FAFICS continues to sit on the Board in a non-voting capacity, even though it represents only 18,500 beneficiaries (approximately 25 per cent) of a total beneficiary population of 74,788 as at 31 December 2016.

23. Under a defined-benefit pension plan, beneficiaries are guaranteed their benefits, whereas active participants are exposed to a higher degree of uncertainty in relation to the pension fund's long-term financial health and sustainability. It is the participants, not the beneficiaries, who would have to bridge the funding gap if the pension fund anticipated significant deficits. Therefore, such pension plans must have a proportionately larger representation of active participants on the board than beneficiaries. Examples of governance structures of large public-sector, defined-benefit pension funds indicate that beneficiary representation is generally limited to one or two seats. OIOS is of the view that the Board needs to determine the appropriate number of seats to be allotted, with voting rights, to beneficiary representatives who are directly elected through a transparent and democratic process similar to that for participant representatives so that the elected individuals are accountable to beneficiaries and fully represent their interests on the Board.

Recommendation 3

The Board should determine the number of seats to be allotted to retiree representatives and facilitate their direct election as full Board members with voting rights to ensure transparent and democratic representation of beneficiaries and their interests.

Comments of the Board. The Board, with the exception of the representatives of the United Nations participants, did not accept the recommendation because this would undermine the tripartite nature of the Board and because retirees were unaffiliated with member organizations.

Comments of OIOS. OIOS is of the view that, in principle, the tripartite character of the Board is represented by governing bodies (the General Assembly in the case of the United Nations and similar governing bodies in the case of other member organizations), executive heads (the Secretary-General of the United Nations and the chief administrative officers of other member organizations), and the individuals who are dependent on the Fund (active participants and beneficiaries). The representatives of FAFICS currently exercise privileges comparable to participant representatives on the Board, except the right to vote, without being elected by the total beneficiary population to represent their interests. That anomaly should be corrected by ensuring transparent and democratic representation of beneficiaries on the Board against the seats allotted for them, with voting rights. In the opinion of OIOS, doing so would not alter the tripartite nature of the Board, but rather give due rights to beneficiary representatives, enhance the legitimacy of their representation at meetings of the Board and its committees and strengthen the accountability of representatives to the beneficiaries at large.

(b) Role of the Federation of Associations of Former International Civil Servants

24. FAFICS is a federation of 61 associations that currently represents approximately 25 per cent of all beneficiaries. It is governed by a council on which its member associations are represented. FAFICS appoints four representatives and two alternates to attend the Board's annual sessions as non-voting members. The Board's report for 2017 listed 10 FAFICS representatives (primary and alternate), who were either non-voting members of the Board or members of the Board's committees and/or working groups. The president of FAFICS was invited to attend 7 of 14 meetings held by the Assets and Liabilities Monitoring Committee, even though

she was not a member of the Committee, whereas the same privilege has never been accorded to any other Board member or representative.

25. As noted in General Assembly resolution 61/240, in 2006, the Board decided that it would absorb the costs related to two retiree representatives attending the Board's sessions and one retiree representative attending the Standing Committee's meetings. However, budget documents for the two most recent bienniums (2016–2017 and 2018–2019) show that the expenses relating to the participation of six FAFICS representatives (four primary and two alternate) in each Board session have been absorbed by the Fund. There was no evidence that the Board's budget working group had raised questions about that discrepancy.

26. In its resolutions 70/248, 71/265 and 72/262 A, the General Assembly expressed concern at the delays in the receipt of benefits by some new beneficiaries. The reports of the Fund's internal and external auditors likewise raised concerns about delays, inefficiencies in pension processing, and understatement of the backlog as reported by the Fund secretariat. However, in a letter of January 2018 to beneficiaries, FAFICS stated that delays in pension processing were "largely a thing of the past", even though the Fund secretariat was able to process only 52 per cent of the initial separation cases in January 2018 within 15 days of receipt of all required documents, against the target of 75 per cent that had been set by the Board. Furthermore, the Fund acknowledged in March 2018 that some 15,000 workflows were pending because key separation documents were missing. The Board of Auditors recently concluded that there was an overall drop in the Fund's efficiency in processing benefits in 2017, with 703 fewer cases being processed in 2017 than in 2016.

27. In the same letter, FAFICS questioned the General Assembly's authority to undertake a governance review without prior discussion with the Board. It also stated that the Board had the "sole authority" for the appointment and reappointment of the Chief Executive Officer and that the Secretary-General had only the "administrative function to issue the contract". The Fund secretariat circulated that letter electronically to all registered beneficiaries, including the vast majority who were not members of FAFICS. The circulation of such a letter by the staff of the Chief Executive Officer gave the appearance of collusion between FAFICS and the Fund secretariat to challenge the authority of the Secretary-General and the General Assembly in governance matters of the Fund, even though the Chief Executive Officer was to be reappointed by the Secretary-General on the recommendation of the Board, and would ultimately be accountable to the Assembly. In a letter of February 2018, the outgoing president of a retiree association affiliated with FAFICS indicated to members of that association that the leadership of FAFICS "should be strongly reminded by its members that its task is to protect, defend and advance the rights of all United Nations retirees, not those of the Chief Executive Officer ...". That statement is consistent with complaints from other retirees that FAFICS was protecting the interests of the Chief Executive Officer instead of those of retirees.

28. Furthermore, on the basis of a proposal made by FAFICS in 2017, the Board approved an amendment to the rules of procedure and terms of reference for staff pension committees and their secretaries to allow two retiree representatives to attend the meetings of those committees, which are essentially forums for participants. That further increased the influence of FAFICS in the Fund's governance structure.

Recommendation 4

The Board should establish appropriate mechanisms to avoid conflicts of interest between representatives of FAFICS and the management of the Fund.

Comments of the Board. The Board stated that it would establish appropriate mechanisms to avoid conflict of interest between the management of the Fund and the constituent groups of the Board.

Comments of OIOS. OIOS is of the view that, as discussed in section V of the present report, the larger issue of conflict of interest and the lack of checks and balances between the management of the Fund and the Board should be addressed by separating the Board secretariat and the management of the Fund, as indicated in recommendation 8. The specific issue concerning the conflict of interest relating to FAFICS representatives and the management of the Fund needs to be addressed by ensuring that the management of the Fund regulates the travel costs relating to FAFICS representatives in accordance with legislative decisions. The issue relating to accountability of beneficiary representatives to their constituents would be addressed by the implementation of recommendation 3. However, the Board, with the exception of the representatives of the United Nations participants, has declined to accept both recommendations 3 and 8.

E. Frequency of Board meetings

29. According to the Fund's rules of procedure, the Board shall meet in regular session not less frequently than once every two years. Prior to 2006, the Board met biennially for a period of approximately 7 to 8 working days in even-numbered years. The Standing Committee, which is smaller in size (15 members) and has the authority to act on behalf of the Board when the latter is not in session, usually met for 4 to 5 days in odd-numbered years. In 2006, the Board decided to convert to annual sessions. Since then, the Board has been meeting for 5 working days in odd-numbered years and 7 working days in even-numbered years. The Standing Committee has also been meeting during each annual session of the Board for one day, primarily to deal with appeals.

30. The current term of office for members of the Board and its Standing Committee is one year; they are selected every year at the beginning of each Board session from among the staff pension committee representatives and they remain in office only until the next Board session. Although some are members of both the Committee and the Board, not all Committee members are Board members. The Chairs of the Board and its Standing Committee are different individuals.

31. Before the Board's annual session, information from various sources is presented to Board members usually two weeks prior to the session, or later. For example, in 2017, 1,944 pages of information relating to 39 agenda items were presented to the Board in the form of 47 documents and 16 presentations. Neither the Board nor its Standing Committee receives periodic reports or updates from the Board's other committees (such as the Audit Committee or the Assets and Liabilities Monitoring Committee, which usually meets several times each year) or from the Fund secretariat. Neither the Board nor its Standing Committee has had any meetings between the annual sessions, except for one virtual meeting of the Standing Committee in 2017. The combination of one-year terms for the Chairs of the Board and its Standing Committee, their discrete composition, the absence of a common Chair, and the lack of ongoing oversight over the Fund's operations does not represent the best arrangement for providing effective governance of the Fund.

32. The Board's sessions are held annually, with a large number of individuals in attendance. Increasing the frequency of Board meetings would, therefore, entail significant additional expenditure. The need for appropriate oversight of the Fund's operations could be met by empowering the Standing Committee to meet more frequently on the Board's behalf between its annual sessions, through video/teleconferencing to minimize costs. Doing so would also help to reduce the burden on the Board's annual sessions and enable Board members to take the time necessary to study the sizeable volume of documents presented to them a few days or weeks before the annual sessions. The Board could identify the specific subjects to be delegated to the Standing Committee for that purpose to ensure that the Board's own authority to make decisions on major policy issues is not compromised or diluted.

Recommendation 5

The Board should strengthen its governance of the Fund by: (a) increasing the frequency of meetings of the Standing Committee to provide more effective oversight of the Fund's operations; (b) entrusting the Standing Committee to act on the Board's behalf during periods when the Board is not in session; and (c) requiring the Board's other committees and the secretariat of the Fund to periodically submit their reports to the Standing Committee for better oversight and to reduce the burden on the Board's annual sessions.

Comments of the Board. The Board stated that it has taken note of the recommendation and wished to point out that section B of the rules of procedure defines the role of the Standing Committee, and that the possibility of increased frequency of meetings as necessary or when requested by the Board was already foreseen in rule B.4.

Comments of OIOS. OIOS notes that the increased frequency of the Standing Committee's meetings on behalf of the Board, as already provided for in the Fund's regulations and rules, has not been exercised to provide more effective oversight of the Fund's operations. That significant weakness in the Board's governance needs to be addressed by ensuring that the Standing Committee meets more frequently and acts on behalf of the Board during periods when the Board is not in session.

F. Role of the United Nations Appeals Tribunal

33. Article 48 of the Fund's regulations states that applications alleging non-observance of the regulations arising out of decisions of the Board may be submitted directly to the United Nations Appeals Tribunal. In the event of a dispute as to whether the Tribunal has competence, the matter shall be settled by a decision of the Tribunal. The decision of the Tribunal shall be final and without appeal. However, in a note of 13 February 2018 to the United Nations Staff Pension Committee, the Secretary/Chief Executive Officer informed the Committee that the "Board, not the Tribunal, has sole authority to interpret the Fund's regulations ... therefore, the [Tribunal's] judgments cannot provide any basis for reversing the decisions of the [Board], which concern the governance and administration of the Fund ...".

34. OIOS is of the opinion that the note by the Secretary/Chief Executive Officer mischaracterizes and diminishes the role of the Tribunal on the incorrect premise that the Board has "sole authority" to interpret the Fund's regulations and rules. As part of the governance structure, the role of the Tribunal is to ensure fairness and act as a check on arbitrary actions of the Board and the Fund secretariat. Although the Board has the authority to propose to the General Assembly appropriate amendments to the

Fund's regulations and rules to bridge gaps in law arising from the Tribunal's judgments and/or interpretations, such amendments cannot be premised on the notion that the Board enjoys supremacy over the Tribunal, its jurisdiction and its jurisprudence. Doing so, or creating a perception to that effect, would set a tone that shows lack of commitment to the principles of justice and fairness in the Fund. The Board cannot operate arbitrarily, free from judicial review.

III. Committees of the Board

A. Standing Committee

35. At each regular session, the Board appoints the members of its Standing Committee, which is to act on the Board's behalf when it is not in session. The Committee shall decide individual cases referred to it, exercise general control over the Fund's operations, and may initiate preparatory work on any policy questions to enable their effective consideration by the Board.

36. Since 2006, the Standing Committee only met during each annual session of the Board for one day, primarily to deal with appeal cases, with one exception in June 2017. It was not acting on behalf of the Board when the Board is not in session. Instead, functions that should have been performed by the Committee, such as evaluating the performance of the Chief Executive Officer and conducting the search for the Deputy Chief Executive Officer, were performed by ad hoc groups that, unlike the Standing Committee, did not have broad representation of the Board's constituent groups.

37. In the context of recommendation 5 above, the rules of procedure governing the full operation of the Standing Committee on behalf of the Board between the Board's annual sessions need to be clarified so that important matters are entrusted to the Committee acting on behalf of the Board, rather than to ad hoc groups.

B. Staff pension committees

38. Staff pension committees and their secretariats service the needs of participants from their respective organizations and provide the Fund secretariat with the required information pertaining to staff member participation in the Fund and their separation from service. The Fund secretariat provides central secretariat services to all staff pension committees (including the United Nations Staff Pension Committee) and local secretariat services to the United Nations as the secretariat of the United Nations Staff Pension Committee.

39. As noted in a previous OIOS audit report (2017/002), the Fund receives approximately $20 million per biennium from the United Nations for the staff pension committee secretariat services it provides. However, no metrics were defined to measure and monitor the Fund's performance of that function. The audit also showed that 11,128 pension cases were pending as of July 2016 owing to incomplete documentation. The Fund's stated position that the responsibility for missing documents rested with the member organizations was contrary to its quality management policy, which required the Fund to be more proactive in following up on such missing documents. The percentage of cases with missing documents pertaining to the United Nations Staff Pension Committee was 22 per cent, compared to 13 per cent for other staff pension committees. An OIOS recommendation that the Fund secretariat address those deficiencies is still being implemented.

40. Staff pension committees have the authority to review disability cases relating to their respective participants. There was a high volume of disability cases requiring

the attention of the United Nations Staff Pension Committee, whereas the staff pension committees of other member organizations mostly focused on governance matters owing to the low number of disability cases that required their review. The United Nations Staff Pension Committee has primarily reviewed disability cases, except for 2018 when participant representatives requested that policy matters be discussed in preparation for the Board's session. The exclusive focus on disability cases has not allowed that Committee to fully play its role in the Fund's governance. The Committee could mitigate that situation by meeting more frequently to allow adequate time to discuss policy issues concerning the Fund.

C. Committee of Actuaries

41. The Committee of Actuaries consists of five independent actuaries appointed by the Secretary-General for a three-year term upon the recommendation of the Board, subject to an overall limit of five terms. The function of the Committee is to advise the Board on actuarial questions arising from the Fund's operations. The Committee's terms of reference allow for the addition of ad hoc members for a term of two years. In 2006, two ad hoc members were added to the Committee in view of their special skills in asset liability management. In 2017, the Board, in view of the upcoming retirement of one member and the commencement of the final term of three others, approved the addition of two more ad hoc members.

42. The Committee meets once a year, and, since 2002, has held joint sessions with the Investments Committee every two years to maintain and enhance the link between the Fund's assets and liabilities, including by assessing the continued reasonableness and achievability of a real rate of return of 3.5 per cent. The Committee has consistently reported to the Board that its joint meetings with the Investments Committee have been effective in achieving that purpose.

D. Assets and Liabilities Monitoring Committee

43. In 2005, the then Chief Executive Officer proposed to establish an assets and liabilities monitoring committee to achieve more systematic and regular interaction between the Investments Committee and the Committee of Actuaries. The Standing Committee concluded that such a committee was unnecessary, considering that joint meetings of those two expert committees on assets and liabilities were already being held regularly. In 2007, the Chief Executive Officer proposed, inter alia, that he assume full responsibility for investment management. That proposal coincided with another joint proposal by the participant representatives and FAFICS that the Chief Executive Officer hire an independent investment adviser or create an additional investments committee under the Board. The Board did not approve those proposals because the Fund's existing governance set-up was considered adequate.

44. In 2012, the Board established a working group on sustainability to study measures to ensure the Fund's long-term sustainability. The working group recommended, inter alia, the establishment of a regular assets and liabilities monitoring committee, which was approved in 2013. Eight members were appointed to serve on the Assets and Liabilities Monitoring Committee for a four-year term, renewable once.

45. From a governance perspective, mechanisms were already in place to monitor solvency risk or the balance between assets and liabilities, including joint meetings of the two expert committees, with actuarial evaluations and asset liability management studies being conducted every two and four years, respectively, alongside collaborative mechanisms established by the Fund for that purpose. The

creation of the Assets and Liabilities Monitoring Committee duplicated those existing mechanisms. From a technical perspective, given the Fund's long-term investment horizon, well-funded status, negligible risk to liquidity and relatively stable pension liabilities, there was no need to manage or monitor solvency risk on a frequent, short-term basis.

46. Currently, no members of the Assets and Liabilities Monitoring Committee have voting rights on the Board and four of its members are essentially outsiders. Since the majority of them are not investment experts, their work has required support from the Chief Executive Officer, the Representative of the Secretary-General for the investment of the assets of the United Nations Joint Staff Pension Fund, two members from each of the two expert committees, and the consulting actuary.

47. Article 19 of the Fund's regulations allows the Board to make "observations and suggestions" on the investment policy and examine investment accounts. However, the work of the Assets and Liabilities Monitoring Committee has far exceeded the scope of article 19. It has essentially functioned as an oversight committee in respect of the Office of Investment Management through its extensive review of investment matters. Some of its observations and recommendations have been technically questionable and contradicted those of the Investments Committee. For instance, the Assets and Liabilities Monitoring Committee has repeatedly suggested that the Office of Investment Management use more tactical asset allocation during a period, whereas the Investments Committee has advised otherwise. Coverage of liability topics by the Assets and Liabilities Monitoring Committee has been limited and largely repeated the work of the Committee of Actuaries.

48. OIOS is of the opinion that there is no need for a permanent committee for asset liability monitoring owing to the Fund's strong long-term funding status and the effective governance mechanisms already in place for the same purpose. If necessary, the Board can include asset and liability management in its agenda and require the management of the Fund to provide assurances as needed.

Recommendation 6

The Board should retire its Assets and Liabilities Monitoring Committee and reinforce the interaction between the Committee of Actuaries and the Investments Committee to safeguard the Fund's long-term solvency.

Comments of the Board. The Board, with the exception of the representatives of the United Nations participants, did not accept the recommendation and decided to keep the Assets and Liabilities Monitoring Committee to satisfy the purposes and objectives outlined in section 1, paragraph 2 of the Committee's terms of reference.

Comments of OIOS. OIOS notes that, pursuant to section 6, paragraph 9 of those terms of reference, the Board was to "review the experience" of the Committee at the Board's sixty-third session, in 2016. At the time of the audit, it was unclear whether that review had taken place. In the opinion of OIOS, such a review is required, without presumption of outcome, to determine the value added by the Committee to the Fund's governance.

E. Audit Committee

49. The Board established its Audit Committee in 2007 to assist in fulfilling its oversight responsibility. The Committee comprises nine members appointed by the Board, including two independent experts and a representative of FAFICS. The Committee has followed the good practice of performing self-evaluations.

Nonetheless, there are a number of areas where the Committee can strengthen its role and improve its effectiveness, as discussed below.

50. The Audit Committee needs to strengthen the criteria and procedures for the selection of its members. The Committee's selection procedures are informal, and there is no documented assessment as to whether the members nominated by the three constituent groups of the Board fulfil the criteria for membership as defined in the Committee's terms of reference. The Committee could benefit from considering the practice of the Independent Audit Advisory Committee of the General Assembly, whose members are selected from a pool of candidates after the respective Member States of origin have attested to their qualifications on the basis of pre-defined criteria.

51. In accordance with leading practices and trends, an audit committee should, inter alia, ensure the independence of its members, focus on the tone at the top and on culture and ethics, and provide oversight of compliance with the organization's code of ethics/conduct. Since 2008, the members of the Audit Committee have been complying with the requirement to file conflict of interest declarations before each meeting. However, in the absence of an independent secretariat for the committee, there has been no procedure to independently verify or evaluate those declarations. There have been instances where the Committee could have applied a higher standard in managing perceived conflict of interest situations relating to its members by exercising its own judgment instead of referring the matter to another office or resorting to recusals, which may not necessarily have been the best solution. Demonstration of adherence to a higher ethical standard by Committee members would strengthen its effectiveness and set an example for the Board and the Fund in establishing an ethical tone at the top.

52. In the opinion of OIOS, the Audit Committee needs to be more sceptical about the information and proposals provided to it by the Fund secretariat. For instance:

(a) In November 2014, the Board of Auditors stated that it was "taken aback" when it learned that the proposed amendments to article 14 of the Fund's regulations relating to external audit had been presented to the General Assembly without any consultation. Eventually, the amendments were rejected by the Assembly. That may have occurred owing to inadequate explanation to the Audit Committee of the rationale for the proposed amendments and confirmation that management had appropriately consulted with the Board of Auditors before proposing the changes.

(b) In 2016, the Audit Committee reviewed the fraud policy prepared by the Office of Investment Management but not the fraud policy of the Fund secretariat. The policy of the Fund secretariat requires the senior management of the Fund, including the Chief Executive Officer and Deputy Chief Executive Officer, to initiate the analysis of fraud-related concerns and determine the nature of any investigation and decide on the involvement of other offices or an independent fact finder. Unlike the policy prepared by the Office of Investment Management, the policy of the Fund secretariat lacks the safeguards necessary to protect staff who report fraud, which may discourage them from reporting fraud for fear of retaliation. That issue assumes significance in view of the three complaints of retaliation filed by Fund staff against the Fund secretariat, which the Ethics Office found to be substantiated.

(c) As explained further in the present report, the Chief Executive Officer accepted an award from a vendor in February 2016 and informed the Audit Committee about it. However, the Committee was not informed that acceptance of the award contravened the administrative instruction that requires that any honour, decoration, favour or gift from any individual or entity doing business with the Organization be declined or returned.

(d) The management of the Fund informed the Audit Committee in 2017 that the internal audit function (performed by OIOS) was rated as "high risk" in the Fund's risk register. Evidently, the Committee had not been informed that the Fund had engaged an accounting firm at a cost of $101,810 to review and update its risk register, and that there was no known deliverable produced by the firm that could be deemed to be an updated risk register. Seemingly on the basis of assertions by the management of the Fund, the Committee informed the Board that the non-acceptance of several audit recommendations suggested that management had lost confidence in OIOS. Furthermore, during its meeting in November 2017, the Committee concluded that the risk of not implementing recommendations that had not been accepted was not clear from the OIOS reports in question (2017/104 and 2017/110). OIOS is of the view that such conclusions may have come about owing to the Committee's reliance on management's assertions, without challenging them adequately to glean the facts.

Recommendation 7

The Board should, in consultation with its Audit Committee, strengthen the criteria for the Committee's membership, its independence and its means to hold the management of the Fund accountable for the accuracy and completeness of the information presented to it.

Comments of the Board. The Board accepted the recommendation.

IV. Management structure of the Fund

A. Overview

53. The Fund was created as a subsidiary organ of the General Assembly by its resolution 248 (III) in 1948. The Fund's legal status remains unchanged with the admission of new member organizations. The General Assembly remains the Fund's supreme governing body and the United Nations remains its lead organization and host. Several mechanisms established since the Fund's inception continue to provide institutional linkages between the United Nations and the Fund, including the authority of the Secretary-General over the appointment of the Fund's Chief Executive Officer and Deputy Chief Executive Officer on the recommendation of Board, oversight by OIOS, the role of the Ethics Office, which reports directly to the Secretary-General, and the role of the secretariat of the Fund as the secretariat of the United Nations Staff Pension Committee. The Office of Investment Management, which manages the investment of the Fund's assets, is also under the authority of the Secretary-General. Therefore, the Fund is not entirely independent from the United Nations.

54. However, the Fund had repeatedly asserted otherwise. For example, in a 2014 report submitted to the Board, the Secretary/Chief Executive Officer asserted, inter alia, that the Fund is an "inter-agency body" and that the Secretary-General, as the executive head of a member organization of the Fund, must respect that independence. Similarly, the Fund disputed the discretionary authority of the Secretary-General over the appointment of the Chief Executive Officer and Deputy Chief Executive Officer and maintained that the Secretary-General was required to necessarily accept the Board's recommendation and implement it.

55. OIOS is of the view that the Secretary-General has discretion over the appointment of the Chief Executive Officer and Deputy Chief Executive Officer under Article 101 of the Charter of the United Nations, which requires the Secretary-

General to secure the highest standards of efficiency, competence and integrity, which is the paramount consideration in the employment of staff. If the Secretary-General receives information from the offices that report to him, such as OIOS and the Ethics Office, that may cause him to believe that the principles of Article 101 of the Charter may be compromised by accepting the Board's recommendation to appoint or reappoint the Chief Executive Officer or Deputy Chief Executive Officer, the Secretary-General has the duty to act in a manner that upholds the principles of the Charter.

B. Secretariat of the Fund

56. The Fund secretariat is headed by the Chief Executive Officer, who is appointed by the Secretary-General on the recommendation of the Board and manages the secretariat under the authority of the Board. The Deputy Chief Executive Officer is similarly appointed. The secretariat is primarily responsible for pension administration, including the monitoring of actuarial valuations and contributions from member organizations and participants and the processing and payment of pension benefits. The secretariat also assists the Chief Executive Officer in his roles as Secretary of the United Nations Staff Pension Committee and of the Board. Internally, the secretariat provides administrative services in respect of human resources, travel and facilities management to the Office of Investment Management.

C. Office of Investment Management

57. The Office of Investment Management is responsible for managing the investment of the Fund's assets. Under the authority of the Secretary-General, the Representative of the Secretary-General for the investment of the assets of the United Nations Joint Staff Pension Fund has a fiduciary responsibility to manage the investments in the best interests of participants and beneficiaries. The Office of Investment Management assists the Representative in fulfilling his or her responsibilities by: (a) executing the investment strategy in accordance with investment policies; and (b) monitoring, evaluating and reporting on asset allocation, investment performance, risk and compliance. Until the post of Representative became full time in 2014, the Office, at the time known as the Investment Management Division, had been headed by a representative, also designated by the Secretary-General, who worked on a part-time basis. The first full-time Representative was appointed in 2014 at the rank of Assistant Secretary-General.

V. Checks and balances between the Board and the management of the Fund

A. Dual role of the Fund's Chief Executive Officer

1. Best practices in governance

58. In its Internal Control Integrated Framework, the Committee of Sponsoring Organizations of the Treadway Commission defines the term "control environment", which refers to the set of standards, processes and structures that provide the basis for internal control across an organization. The control environment is also the overall culture, tone and attitude of an organization. As indicated in the Framework, one of the principles of the control environment requires that a board demonstrate independence from management and that it exercise oversight over the development and performance of internal control functions. In accordance with best practices for

good governance, it is recommended that the same person not be appointed as the Chief Executive Officer and Secretary because the responsibilities of those positions may conflict with each other.

2. Established practice in the Fund

59. Article 7 of the Fund's regulations states that the Chief Executive Officer of the Fund shall also serve as the Secretary of the Board. All sessions of the Board are convened by the Secretary, who also places on the agenda the items proposed by any Board member or staff pension committee. All documents are presented to the Board with a note by the Secretary, who is also responsible for preparing the Board's reports. The records and correspondence of the Board are private and kept in the care of the Secretary.

60. The substantial authority given to the Chief Executive Officer as the Board's Secretary poses significant risks to the objectivity of the Chief Executive Officer and inhibits the "arm's length principle" in dealings with the Board, in particular with regard to accountability for the Fund's operations as its Chief Executive Officer. The review conducted by OIOS showed that performance of the roles of Secretary and Chief Executive Officer by the same individual is not a sound governance practice, as illustrated by the following examples:

(a) The Secretary reviews the survey questions for the Board's self-evaluation and controls the compilation and distribution of its results. That arrangement poses a conflict because the Board is responsible for assessing the performance of the Secretary/Chief Executive Officer.

(b) The Fund established a quality management policy in 2002–2003 as a key component of the management charter that had been presented to the Standing Committee in 2001. The policy contained important metrics to measure the performance of the Chief Executive Officer and to hold him or her accountable for the quality of service provided to participants and beneficiaries. In March 2017, the Chief Executive Officer abolished the policy without the approval of the Board or the Standing Committee, thereby compromising the accountability of the Chief Executive Officer to the Board.

(c) The Chief Executive Officer controls the performance evaluations and promotions of all staff who provide secretariat support to the Board's committees. That arrangement could interfere with their independence and compromise the confidentiality of committee deliberations, in particular those of their closed/private sessions.

(d) The dual role of Secretary/Chief Executive Officer has enabled the incumbent to conceive and present proposals to the Board that have sought to alter the Fund's governance. In 2007, one of those proposals was to end the Fund's bifurcated structure by creating one unified operational entity under the authority of the Secretary/Chief Executive Officer. The Board did not accept the proposal. In 2012, the Secretary/Chief Executive Officer attempted to obtain the power to amend the Fund's administrative rules, but the Board did not agree. In 2014, the Secretary/Chief Executive Officer tried to restrict the authority of the Board of Auditors by proposing an amendment to article 14 (b) of the Fund's regulations that was endorsed by the Board but was not approved by the General Assembly. Had the secretariat of the Board been independent from the management of the Fund, the Chief Executive Officer's proposals would have been scrutinized and appropriately challenged before being presented to the Board.

(e) In 2013, the Secretary/Chief Executive Officer established a project on human resources management and appointed a Board member as the project leader in

a personal capacity on a pro bono basis. Although that individual was not eligible for business class travel and a daily subsistence allowance at the special rate of 140 per cent, the Chief Executive Officer approved that deviation from the rules. The Board member reported to the Chief Executive Officer during the project. Later, the Secretary/Chief Executive Officer presented a report to the Board regarding the project. In appointing that Board member as project leader, the Secretary/Chief Executive Officer compromised the principle of management maintaining an arm's length from the Board.

(f) The Secretary/Chief Executive Officer had presented incorrect and incomplete information to the Board and the General Assembly on the actual status of the Fund's Executive Office, which was unilaterally dissolved by the Chief Executive Officer in June 2015. The Chief Executive Officer moved the Executive Officer and an Administrative Officer to another office at United Nations Headquarters and distributed their functions internally. The dissolution was not reflected in the Board's report to the General Assembly. The salaries and allowances of the two staff members, which OIOS estimated at $2.4 million for the period July 2015 to April 2018, continued to be paid by the Fund even though they had ceased working for the Fund in June 2015. That fact was not disclosed to the Board. The disbanding of the Executive Office impacted the operations of the Office of Investment Management and led to unnecessary expenditures on unutilized office space and a failure to recover the landlord's share of renovation costs amounting to $923,880 for more than two years, as previously noted in an OIOS report (2018/002). The loss from the Fund secretariat's failure to initiate the recovery is estimated at between $100,000 to $220,000 as of May 2018.

(g) In 2016, the Secretary/Chief Executive Officer presented a report to the Board on a post-implementation review of the Integrated Pension Administration System, a project for which the Chief Executive Officer was responsible. The report was prepared by a consulting firm hired by the Chief Executive Officer at a cost of $291,200 by improperly utilizing a contract for accounting services (see OIOS report 2017/110). On the basis of the consulting firm's report, the Secretary/Chief Executive Officer reported to the Board that the implementation of the Integrated Pension Administration System had been successful. Accordingly, the Board reported the project's success to the General Assembly, which the Assembly welcomed in its resolution 71/265. A subsequent audit by the Board of Auditors found several issues relating to the Integrated Pension Administration System, including anomalies in the data provided to the Fund's actuaries that led to an unreliable actuarial valuation. In its resolution 72/262 A, the Assembly noted with serious concern the shortcomings in the implementation of the Integrated Pension Administration System and requested the Board to address them. In that instance, the Chief Executive Officer exercised his authority to hire a vendor, who may have lacked independence and objectivity owing to the conflict of interest inherent in such a relationship, to prepare the report and then exercised his authority as Secretary to present it to the Board.

(h) In June 2018, the Secretary/Chief Executive Officer proposed to amend the Fund's regulations by adding a new article 4 (c) as follows: "The Board shall adopt its own Rules of Procedure which shall be reported to the General Assembly and the member organizations". Such an amendment was unnecessary because rule A.5 of the Board's rules of procedure already states that "subject to the provisions of the Regulations and of these Rules, the Board shall adopt its own procedures". The proposed addition of a new article 4 (c) that omitted the words "subject to the provisions of the Regulations and these Rules" raises questions about the rationale for such an amendment.

61. The above conditions strongly indicate that the combination of the roles of Secretary to the Board and Chief Executive Officer of the Fund in one individual

significantly compromises checks and balances. It fails to ensure the accountability of the Chief Executive Officer to the Board because too much authority is concentrated in the same individual who, as Secretary, controls the information provided to the Board, including its content and accuracy. Since the Board meets only once a year, the submission of bulky documents to its members just a few days or weeks before the Board's annual sessions does not permit their independent vetting and scrutiny. The separation of the two roles would require the Chief Executive Officer to submit proposals or documents to the Secretary for the latter's independent review before presentation to the Board for consideration.

62. Such a separation of roles would require the creation of an independent secretariat for the Board to serve the Board and its committees on a full-time basis. OIOS is of the view that any additional costs arising from such an arrangement would be outweighed by the benefits, which would include strengthening the accountability of the Chief Executive Officer to the Board and increasing the focus of the Chief Executive Officer on improving the quality of services delivered to the Fund's stakeholders.

Recommendation 8

The Board should: (a) separate the roles of its Secretary and the Fund's Chief Executive Officer; (b) establish its own secretariat that is independent from the management of the Fund; and (c) reconstitute the Executive Office such that it is directly responsible to both entities of the Fund for the provision of administrative services.

Comments of the Board. The Board, with the exception of the representatives of the United Nations participants, did not accept recommendations 8 (a) and (b). The Board stated that it would establish mechanisms for ensuring proper segregation of roles, such as in relation to the setting of the Board's agenda. The Board accepted recommendation 8 (c), stating that it would request the management of the Fund to resolve that issue as a matter of priority.

Comments of OIOS. OIOS maintains that the separation of roles of the Board's Secretary and the Fund's Chief Executive Officer is of critical importance to preventing role conflicts, providing for the required checks and balances, and promoting the accountability of Fund management to the Board.

B. Performance management and accountability

63. Performance management and accountability is a critical component of good governance. The pension industry uses two major categories of indicators to measure pension administration performance: quality of service (effectiveness) and cost per participant (efficiency).

1. Performance management in the Fund secretariat

(a) Strategic objectives, priorities and performance indicators

64. The strategic objectives and priorities of the Fund secretariat have often been abstract, with no clear deliverables or measurable performance indicators linked to its core services. Those issues have been noted in previous OIOS audits reports, including 2017/002, in which control weaknesses in relation to pension processing, including timely processing and follow-up on missing separation documents, were identified. As of the drafting of the present report, the implementation of most of the audit recommendations in that report was still under way.

(b) Performance reporting

65. There was significant underreporting of performance issues relating to the Fund secretariat. For instance, it was only in January 2018 that the Fund reported more than 15,000 cases as being outstanding owing to various reasons. That was more than two years after the Fund had reported the successful implementation of the Integrated Pension Administration System. Until then, the Fund had reported only some 3,000 cases as backlog, which represented cases where all three documents required for pension processing had been received. The Fund had not reported the 15,000 cases in question on the grounds that it was not responsible for them until all three documents had been received. The Fund was not following up on the missing documents even though the Integrated Pension Administration System had an automated feature to trigger automatic reminders. Moreover, pursuant to its quality management policy, the Fund has the responsibility to proactively pursue missing documents to mitigate the hardship caused to unpaid beneficiaries.

66. Although the Fund has been computing and reporting the cost per participant since 2012, it has not formally adopted that as a performance indicator. In 2015, the then Chair of the Board pointed to the relevance of that indicator while presenting the Fund's proposed budget for 2016–2017 to the General Assembly, projecting that the Fund's cost per participant for 2018–2019 would fall to the 2006 level following the efficiency gains brought about by the implementation of the Integrated Pension Administration System. The Fund's methodology for calculating the cost per participant excluded the portion of the Fund's administrative costs borne by the United Nations, despite the inseparability of the staff pension committee secretariat role from the Fund's operations. The actual cost per participant would be much higher if those costs were included: $233 for 2017, as compared with the $184 calculated by the Fund. Furthermore, the cost per participant projected by the Fund for 2018 ($192) is 28 per cent higher than that for 2006 ($150). The Fund secretariat has yet to conduct a benchmarking exercise to determine the reasonableness of its costs.

(c) Performance evaluation of the Chief Executive Officer and Deputy Chief Executive Officer

67. In 2013, the Board decided that its "bureau" would evaluate the performance of the Chief Executive Officer every two years with reference to the Fund's strategic objectives. In 2016, the "bureau" conducted the evaluation for the 2014–15 cycle. OIOS considers that evaluation to be inadequate because: (a) the performance of the Chief Executive Officer was not measured on the basis of clear deliverables and indicators; (b) the quality of core services, operational efficiency and the implementation of critical projects were not prioritized; and (c) the performance of the Chief Executive Officer as Secretary of the United Nations Staff Pension Committee was not assessed. The evaluation relied significantly on a self-appraisal submitted by the Chief Executive Officer, which understated performance issues, such as delays in benefit processing, and overstated achievements, such as the implementation of the Integrated Pension Administration System.

68. The performance of the Deputy Chief Executive Officer has never been evaluated. During its 2017 session, the Board did not discuss the reappointment of the Deputy Chief Executive Officer, nor did it initiate a search process for a successor, even though it was known that the first term of the Deputy Chief Executive Officer would expire in 2018.

(d) Performance evaluation of staff

69. The Board of Auditors reported that, in May 2014, 46 per cent of the Fund's staff had not completed their performance appraisals for the 2012–13 cycle, and

47 per cent of staff members had been awarded salary increments without proper performance evaluation for the year. The Fund accepted the Board's recommendation to effectively monitor and oversee the performance evaluation process and to hold all managers and supervisors accountable. However, OIOS noted that the completion rate of performance evaluations by Fund staff has since deteriorated. As of April 2018, 43 per cent of staff in the Fund secretariat (and more than 80 per cent in two sections) had not completed their performance evaluations for the 2016–17 cycle. Also, there were several cases where the roles of first and second reporting officers were being performed by the same supervisor, which weakened checks and balances in managing the performance of staff.

2. Performance management in the Office of Investment Management

70. The Office of Investment Management has consistently defined its strategic objective as achieving a long-term actuarial real rate of return of 3.5 per cent. The Office has also measured and reported its performance against its policy benchmark, which has been regularly published on the Fund's website. The Representative of the Secretary-General for the investment of the assets of the United Nations Joint Staff Pension Fund has signed a performance agreement with the Secretary-General every year, with performance being evaluated accordingly. Those performance indicators cascaded down to Office managers and staff. The performance evaluation completion rate of Office staff was 86 per cent for the 2013–14 cycle, and increased to 99 per cent for the 2016–17 cycle. The Office also conducted two benchmarking studies, in 2012 and 2017.

Recommendation 9

The Board should: (a) establish mechanisms to ensure that annual performance evaluations of the Chief Executive Officer and Deputy Chief Executive Officer are conducted and documented based on clear metrics to hold them accountable; and (b) ensure that the secretariat of the Fund is held accountable for annually appraising the performance of its staff.

Comments of the Board. The Board accepted the recommendation.

C. Control environment

1. Best practices in governance

71. As indicated in paragraph 58 above, pursuant to the Internal Control Integrated Framework, the Board is ultimately responsible for creating an effective control environment by providing oversight and setting the tone for integrity and ethical values.

2. Culture, tone and attitude of the organization

(a) Transparency and accountability

72. Transparency is regarded as a key feature of good governance and a precondition for accountability. The Board currently places restrictions on the distribution of its documents. Its handbook states that all documents for meetings of the Board, the Standing Committee and staff pension committees are restricted and confidential. Members of the Board and its committees sign a declaration that requires them to maintain the confidentiality of all non-public information entrusted to them or otherwise obtained by them in the discharge of their responsibilities. The confidentiality requirement precludes Board members from obtaining any

independent advice, in good faith, from others who may have the expertise required to suitably apprise them of the implications of proposals before the Board and the potential consequences of its decisions in that regard. OIOS is of the view that many of the restricted documents are, in fact, not confidential in nature and should be made available to Fund stakeholders, who may not be assured of accountability if the required transparency and access to information are absent.

73. The Fund secretariat has repeatedly resorted to the practice of proposing amendments to the Fund's regulations and rules without consulting or even informing the stakeholders concerned within the Fund's governance structure who would be impacted by such amendments. That practice raises serious doubts about its commitment to transparency and fairness, as well as the underlying motives in adopting such an opaque approach while altering the Fund's regulatory framework. The situation is facilitated by the performance of the functions of Secretary of the Board and Chief Executive Officer of the Fund by the same individual.

(b) Independence and impartiality

74. In February 2016, the Chief Executive Officer accepted an award from a vendor with whom the Fund had established a contract for basic services. The contract was entered into in March 2012 by the former Chief Executive Officer against the advice of the Headquarters Committee on Contracts, which resulted in the rejection of the lowest-cost acceptable proposal and an additional commitment of $1 million (see OIOS report 2016/136). The current Chief Executive Officer, who was the Fund's Deputy Chief Executive Officer when the Fund entered into that contract in 2012, had worked for the same vendor prior to being appointed to the Fund. In his self-evaluation in 2016, the Chief Executive Officer highlighted the award presented by the vendor as a significant achievement.

75. Acceptance of the award from the vendor contravened the administrative instruction that requires that any honour, decoration, favour or gift from any individual or entity doing business with or seeking to do business with the Organization be promptly declined and returned. The Fund secretariat explained that it had reported the receipt of the award to the Board and the Audit Committee, which did not provide any advice or suggestions in that regard but rather acknowledged the achievement. OIOS is of the view that such an endorsement does not set the appropriate tone as to the standards of conduct expected of the management and staff of the Fund.

(c) Integrity and ethical values

76. In accordance with the principles relating to the control environment set out in the Internal Control Integrated Framework, organizations must demonstrate a commitment to integrity and ethical values. However, OIOS has come across a number of instances where the Fund secretariat may have failed to do so. For example, the Chief Executive Officer did not intervene to prevent conflict of interest in recruiting a senior manager who was both a candidate for a post and involved in correspondence relating to the post's classification. In another instance, a senior manager copied a staff member in an email that contained assessment questions in relation to a post for which the latter had applied. In both cases, the Fund secretariat proceeded to select those staff members for the posts.

77. The current Chief Information Officer of the Fund serves as Vice-Chair of the management committee of a United Nations agency that provides services to several United Nations entities, including the Fund. The management committee decides the agency's catalogue of services and the rates to be charged for them. As Chief Information Officer, that individual directly supervises the requisitioning of services

from the agency, currently amounting to $7 million per year. The Chief Information Officer is a former OIOS staff member who, in 2009, had supervised an OIOS audit of services provided by the agency to several United Nations entities, including the Fund. That audit gave rise to a recommendation in which a department of the United Nations Secretariat (Department A) was asked to determine and recover overpayments made to the agency for services not requested or not delivered. Department A recently indicated that it had withheld payments of approximately $5 million to the agency, pending resolution of the disputed charges. Department A further stated that the agency had recently requested the Chief Information Officer to assist as an intermediary to review and advise both parties on how to resolve the dispute. The combination of roles performed by a single individual — as the OIOS auditor who made the recommendation to Department A, as the Chief Information Officer and requisitioner of services from the agency on behalf of the Fund, as Vice-Chair of the agency's management committee, and now as intermediary in the dispute involving Department A that that individual had previously audited and the agency — gives rise to multiple conflicts of interest that could impair that individual's independence and impartiality.

78. Information provided to OIOS indicates that three complaints have been filed by Fund staff alleging retaliation by the Fund secretariat. The Ethics Office has determined that retaliation was established in all three cases. Those instances point to the need for the Board to restore confidence among staff and promote ethical conduct without fear of reprisal.

Recommendation 10

The Board should take effective measures to ensure that the secretariat of the Fund sets the appropriate tone at the top with regard to integrity and ethical values.

Comments of the Board. The Board accepted the recommendation.

3. Organizational structure

(a) Resource distribution

79. An OIOS review of resource distribution over the course of seven bienniums, from 2004–2005 to 2016–2017, showed that the Fund secretariat had used more resources for support functions than for its programme of work. According to industry standards, functions relating to legal, policy interpretation, actuarial valuation and risk management are all considered support services. On that basis resource distribution for the programme of work and for programme support for the 2016–2017 biennium were 46 per cent and 48 per cent, respectively, which would seem to indicate a prioritization of support functions over programme activities.

80. The number of established P-5 and D-1 posts in programme support, including in the Risk Management and Legal Services Section, which was created in 2014, increased by 250 per cent from the periods 2004–2005 to 2016–2017. The number of established posts in the Professional category for legal officers increased by 500 per cent between 2004–2005 and 2016–2017, representing the largest increase among all functions and sections in the Fund secretariat.

(b) Combination of diverse functions under the Risk Management and Legal Services Section

81. Prior to 2014, the risk management function had a direct reporting line to the Chief Executive Officer. With the new structure in place since 2014, Fund secretariat risk officers have reported to the Chief of the Risk Management and Legal Services Section. The post of Chief of the Risk Management and Legal Services Section was approved at the D-1 level after several unsuccessful attempts by the Chief Executive Officer over three consecutive bienniums to either create a new D-1 post or to reclassify an existing P-5 post in the Legal Section to the D-1 level. Given that the main responsibility of the incumbent is to direct, manage and provide guidance for all services under the Risk Management and Legal Services Section (including actuarial valuation and risk management), it is unclear whether that is being achieved effectively given that the incumbent's background is predominantly in legal services. The Chief Executive Officer's rationale for creating the Section was that it would "enhance the Fund's ability to understand and oversee key solvency issues and provide adequate and professional integrated analysis for informed decision-making at the legislative and managerial levels." Those functions require specialized knowledge and skills that are distinct from the skill set needed to provide legal services. The consolidation of diverse, specialized functions within the Section, whose head is essentially a legal officer, may not be desirable from a governance standpoint and could lead to the application of a legal perspective to non-legal functions. That has been evident from the Fund's responses to oversight reports, which have been prepared for the Chief Executive Officer by the Section, which takes a distinctly legalistic approach towards risk and control, rather than a managerial one.

(c) Questionable use of temporary resources

82. In June 2016, the Fund hired a senior officer at the P-5 level on a temporary basis to support its strategy for public communication. In July 2016, the Fund requested a regular P-5 post for that function, but that request was rejected by the Advisory Committee on Administrative and Budgetary Questions. In 2017, the Fund secretariat requested the same post again, with a slight change in title. The Advisory Committee rejected the request again, stating that "the focus of the Pension Fund should be primarily on improving its operations". Despite the advice of the Advisory Committee in 2016 and 2017, which was endorsed by the General Assembly, the Fund secretariat continued to fund the post through general temporary assistance resources that had been provided for other purposes. Similarly, in 2015, the Fund secretariat requested the reclassification of a programme officer post from the P-4 level to the P-5 level, which was rejected by the Advisory Committee. Despite that rejection, the Fund hired a staff member for that function using general temporary assistance resources that had been provided for other purposes. Also, since May 2015, the Fund secretariat has employed a senior manager at the D-1 level on a temporary basis to support its administrative functions. However, resources for that post had never been requested or approved. OIOS is of the view that such circumvention or overriding of legislative decisions by the Fund secretariat does not set the appropriate tone for Fund staff.

Recommendation 11

The Board should: (a) determine the appropriateness of the distribution of resources between programme and support functions; and (b) strengthen monitoring to ensure that the secretariat of the Fund utilizes resources in accordance with legislative decisions.

Comments of the Board. The Board accepted the recommendation, noting that it related to a long-standing practice of the Board, and that it would continue that practice and perform its functions in monitoring the use and distribution of resources as a matter of priority.

Comments of OIOS. OIOS is of the view that the Board needs to ensure the effective monitoring of the distribution and use of resources by the secretariat of the Fund.

4. Search panel for the Deputy Chief Executive Officer

(a) Shortcomings in the search process

83. In February 2018, the Board's Chair established an ad-hoc Deputy Chief Executive Officer search panel, comprising 8 members, to fill the upcoming vacancy arising from the incumbent's decision to separate from the Organization on 30 June 2018. The Chair asked the spokespersons of the three constituent groups and FAFICS to coordinate the nomination of two representatives from their groups to the search panel. Some Board members representing the United Nations objected to that approach and requested that the rules of procedure be followed by convening the Standing Committee (which should act on the Board's behalf when the Board is not in session) to oversee the search panel's work, related procedures for which had been previously accepted by the Board in 2004. However, the Chair of the Standing Committee declined to convene the Committee, stating that the request should have come from the staff pension committees, not from individuals. There was no evidence that the Deputy Chief Executive Officer, who was acting as the Secretary of the United Nations Staff Pension Committee and as Secretary of the Board and of the Standing Committee, made such a request to the Standing Committee.

84. In a note to the Board in 2004, the Chief Executive Officer had summarized the procedures that had been followed in 1998 for the same purpose and emphasized the establishment of selection procedures that could also be used in the future. Accordingly, at that time, the Board decided to use the same procedures that had been used in 1998. It authorized the Standing Committee to appoint a search group and requested the Board's Secretary to circulate a draft job description and vacancy announcement to the staff pension committees and Board members for comments before they were finalized by the Standing Committee. However, for the 2018 search for Deputy Chief Executive Officer (which was ongoing at the time of the audit), the vacancy announcement was prepared by the search panel without having been circulated to the staff pension committees, the Standing Committee or Board members. After the post was advertised, some Board members raised concerns that the Deputy Chief Executive Officer's duties relating to the individual's dual role as the Deputy Secretary of the United Nations Staff Pension Committee were missing from the vacancy announcement.

85. Apart from the procedural deviations indicated above, OIOS has additional concerns relating to the search panel, as follows:

(a) During previous searches for Chief Executive Officer and Deputy Chief Executive Officer, the secretary/rapporteur of each search panel had been independent and free of any apparent conflict of interest. In the present case, however, according to information known to OIOS, a P-4 level staff member of the Fund secretariat has been assigned that role, which raises concern because some senior managers of the Fund may be candidates for the post. Given the staff member's junior level in the Fund's hierarchy, the integrity of the process may be compromised by the potential conflict of interest in the staff member's role as secretary of the search panel.

(b) The vacancy announcement issued by the Office of Human Resources Management on 2 March 2018 contained an additional section titled "salary and benefits" (which is not normally found in such announcements), which indicated a net annual salary of $108,189 after staff assessment. It also provided a web link to a page that gave information on United Nations system salaries and benefits. Even though the Office of Human Resources Management defines "salary" as comprising two elements (base salary and post adjustment), the figure of $108,189 did not include the annual post adjustment amounting to $72,378. External candidates had to delve through layers of information to ascertain the actual salary for the post, whereas such basic information should have been available upfront, as was done with the vacancy announcement for the post of Chief Executive Officer that had been issued in September 2011, which indicated a net annual salary inclusive of post adjustment. The provision of incomplete information on such an important condition of service may be seen as an unfair practice aimed to provide an advantage to internal candidates.

86. The search process has been mired in controversy and disagreement among Board members and members of the Standing Committee, which does not reflect favourably on the Fund from a governance perspective. The deviations from established procedures, combined with the appearance of arbitrariness and conflict of interest, raise questions about fairness and may undermine the credibility of the selected candidate.

Recommendation 12

The Board should assess the composition and procedures of the search panel for the Deputy Chief Executive Officer in the light of the deviations in and apparent arbitrariness of the process and determine whether the search should be restarted to ensure integrity and fairness in a competitive exercise.

Comments of the Board. The Board did not accept the recommendation as currently formulated. The Board stated that it had assessed the composition and the procedures of the search panel, which had been formulated during the intersessional period, considered them to be appropriate and therefore proceeded with the recommendation to the Secretary-General for the selection of the Deputy Chief Executive Officer. The Board noted that it would reflect on lessons learned for future search panels.

Comments of OIOS. OIOS is of the view that the Board seems to have accepted the recommendation and implemented it, even if its decision was to go ahead with recommending a candidate to the Secretary-General for appointment instead of restarting the search process, despite the issues noted.

(b) Lack of succession planning

87. The performance of the current Chief Executive Officer was evaluated for the first time in 2016, some 18 months before the expiry of his first term, apparently to determine whether the incumbent's performance was adequate to be recommended for a second term starting 1 January 2018. Had that not been done, the Board would have had to appoint a search panel for a new Chief Executive Officer sufficiently in advance to allow it to recommend an appointee during its 2017 session. However, no such consideration was given in the Deputy Chief Executive Officer's case, even though it was known that the first term of the incumbent would end on 31 August 2018. In December 2017, the Board's Chair advised Board members of the Deputy Chief Executive Officer's decision to retire on 30 June 2018, two months before the end of his first term and one month before the Board's 2018 session. That decision by the Deputy Chief Executive Officer, which came at a time when it was well known that the Chief Executive Officer was on extended sick leave and with no definitive

date of return to duty, triggered a succession crisis in the Fund secretariat. Eventually, the Deputy Chief Executive Officer agreed to serve until 31 August 2018. The vacancy announcement was issued on 2 March 2018, with a closing date of 15 April 2018 (just 4.5 months before the incumbent's impending retirement and 3.5 months before the Board's 2018 session). The Board needs to prevent the recurrence of such situations through proper succession planning and the formalization of search procedures on the basis of the good practices followed in 1998 and 2004, rather than devising new procedures each time.

Recommendation 13

The Board should ensure proper succession planning for the positions of Chief Executive Officer and Deputy Chief Executive Officer to allow adequate time for their competitive selection based on pre-established procedures.

Comments of the Board. The Board accepted the recommendation.

VI. Board comments on the draft report

88. The Board's complete response to the draft of the present report is provided in the annex. Table 3 provides excerpts of the Board's general comments on the report and OIOS remarks thereon.

Table 3
Board comments and OIOS remarks

Board comments	*OIOS remarks*
The great majority of Board members expressed serious concern regarding the process by which OIOS had conducted the audit, which many viewed as being flawed and unprofessional.	Considering the magnitude of effort involved, OIOS deployed a large team comprising four auditors at the P-4 level and one audit assistant, who were closely supervised by the Chief of Section and senior management of the Internal Audit Division. The auditors who performed the audit had one or more of the top qualifications relevant to the profession (i.e., Certified Internal Auditor, Certified Public Accountant, Certified Information Systems Auditor, Certified Fraud Examiner and Certified Financial Analyst). They performed their work on the basis of the audit process explained in a detailed terms of reference issued on 22 February 2018, which was circulated to all Board members, their alternates, the Audit Committee and the secretaries of the staff pension committees of all 23 Fund member organizations, who were also informed of the audit findings and recommendations at each stage of the process (i.e., the exit conference, detailed audit results and the draft report). OIOS diligently and fully complied with the International Professional Practices Framework established by the Institute of Internal Auditors.

Board comments	*OIOS remarks*
	At the request of the Chair of the sixty-fourth session of the Board, the Audit Committee reviewed the OIOS draft report and supported most of the audit recommendations, including all five recommendations that OIOS considered to be critical (i.e., recommendations 2, 5, 8, 9 and 10). In its report to the Board, the Audit Committee did not raise any concerns regarding the audit process and found no flaws or unprofessionalism. OIOS asserts that the audit was conducted by competent auditors in a transparent and professional manner.
The great majority of members commented that the audit had not been based on fully verified facts and that reasonable professional care had not been taken to obtain sufficient and factual evidence to support the conclusions drawn and recommendations made.	The Board's response provides no evidence of any factual inaccuracies in the report to support the assertion that "the audit had not been based on fully verified facts". The detailed results of the present audit, which were issued for the Board's comments on 1 June 2018, contained 98 footnotes that cited references to the underlying documents on which the factual statements were based. OIOS maintains that the report is based on facts that were verified as thoroughly as possible, and that the conclusions drawn and recommendations made are based on verified facts.
It was noted by a number of members that the rules and regulations of the Fund had not been adequately cited or taken into account in the drafting of the report and its recommendations.	As explained above, the detailed results of the present audit contained 98 footnotes that cited references to the relevant documents, including regulations and rules wherever appropriate. The existing governance structure has been established and institutionalized through the regulations and rules of the Fund. Any recommendations to modify the governance structure must therefore look beyond the existing regulations and rules, rather than be constrained by them, because no change to the existing governance arrangements would be possible without changing the existing regulations and rules. Therefore, the relevance of the Fund's existing regulations and rules would be limited in an audit such as the present audit.
In addition, the view was expressed that the drafting of the report did not follow the International Standards for the Professional Practice of Internal Auditing, in particular standard 1220.A1, which requires internal auditors to exercise due professional care by considering the extent of the work required to achieve the audit objective, given that OIOS did not observe the session of the Board, which is its central act of governance. It was also observed that OIOS had largely failed to reflect the	The audit team's research involved more than 25,000 pages of documentation pertaining to the last 15 years (and beyond, for certain issues) to study the evolution of the Board's governance structure and related processes. The audit team sought written input from 33 Board members, 17 alternates, 14 members of the Board's committees, and the secretaries of all 23 staff pension committees through detailed questionnaires covering the areas pertaining to the Board's governance. The audit team conducted in-depth interviews with a representative sample of individuals belonging to all constituent groups. The sample comprised 21 Board members and alternates, who represented 7 of the Fund's 23 member organizations, along with four representatives of FAFICS, in addition to at least 15 senior managers and staff members of the Fund. The audit team also observed the meetings of the Assets and Liabilities

Board comments	*OIOS remarks*
comments and views of all member constituencies and organizations of the Board.	Monitoring Committee, the Audit Committee and the United Nations Staff Pension Committee to understand the work of those committees in the context of the Fund's governance. Pursuant to General Assembly resolution 72/262 A, OIOS is required to submit the present report to the Assembly at its seventy-third session, to be considered in the context of the Fund. To that end, the Department for General Assembly and Conference Management provided a slot date of 22 August 2018 for submitting the report to the Department for publication.[1] Those timelines made it impossible for OIOS to observe the Board's session (which was held from 27 July to 3 August 2018) during the audit fieldwork phase, which had to conclude by the end of May 2018 to allow time for drafting the detailed audit results and the draft report for the Board's comments. Nevertheless, the combination of extensive document review, detailed questionnaires, in-depth interviews and the in-person observation of committee meetings, as explained above, along with the experience gained from OIOS participation in the Board's meetings over the past several years, were adequate to conclude the audit fieldwork with due professional care and to achieve the audit objectives. OIOS therefore reiterates that the audit was conducted in accordance with the International Professional Practices Framework established by the Institute of Internal Auditors and reaffirms the validity and relevance of the audit's findings and recommendations. Although the Chair of the sixty-fourth session did not provide any comments on the audit findings and recommendations on the Board's behalf or in her own capacity at any stage of the audit process, OIOS received comments from FAFICS, the representatives of the United Nations participants, and the staff pension committee of one specialized agency, which were fully taken into account before the draft report was submitted on 17 July 2018 for consideration by the Board at its sixty-fifth session. Since it was impossible to meaningfully reflect the opposing and conflicting views received on the audit findings and recommendations, OIOS relied on the Board, to whom all recommendations were addressed, to provide its comments on the draft report. The Board provided its response on 14 August 2018, which is fully reflected in the present report.

[1] In late July 2018, the Department for General Assembly and Conference Management indicated its willingness to allow OIOS additional time to submit the report, if required, after incorporating the Board's response to the draft report. But even that additional time did not allow OIOS the opportunity to observe the Board's sixty-fifth session as part of the audit fieldwork, which ended on 31 May 2018.

Board comments	*OIOS remarks*
A number of Board Members observed that the audit had been conducted in a very short timeframe that was not commensurate with the importance of the various governance issues it was examining.	The audit commenced on 17 January 2018 and the draft report was issued for the Board's consideration on 17 July 2018. The timeframe for completing the audit was set in accordance with Assembly resolution 72/262 A and the deadline for submission of the report to the Department for General Assembly and Conference Management for publishing. OIOS is satisfied that the available time of six months was adequate to examine all relevant governance issues in sufficient depth.
They underscored that they had been given a very limited amount of time for thorough consideration of the draft report's far-reaching recommendations.	OIOS submitted a summary of the audit findings and recommendations to the Chair of the Board's sixty-fourth session on 21 May 2018 for discussion at the exit conference, which was held on 25 May 2018. The Chair circulated the document to all parties concerned (i.e., the Board members and alternates, the secretaries of all staff pension committees and FAFICS representatives). OIOS then formally issued the detailed results of the audit to the Chair on 1 June 2018, who circulated the document to all parties concerned. OIOS then issued the draft report to the Chair of the Board's sixty-fourth session on 17 July 2018, who circulated it to those same individuals. Therefore, between May and July 2018, the Board members and others were given adequate time and opportunity to consider the audit findings and recommendations and to provide comments thereon.

(*Signed*) Heidi **Mendoza**
Under-Secretary-General for Internal Oversight Services
September 2018

Annex

Comments received from the Chair of the sixty-fifth session of the United Nations Joint Staff Pension Board on the draft report of the Office of Internal Oversight Services on the comprehensive audit of the governance structure and related processes of the Board

1. The Board took note of and had an initial discussion on the draft report of OIOS on the audit of the governance structure and related processes of the Board of 17 July 2018. The great majority of Board members expressed serious concern regarding the process by which OIOS had conducted the audit, which many viewed as having been flawed and unprofessional. The great majority of members commented that the audit had not been based on fully verified facts and that reasonable professional care had not been taken to obtain sufficient and factual evidence to support the conclusions drawn and recommendations made.

2. In the view of the representatives of the United Nations participants, the audit was well researched and drafted, properly conducted, of a professional standard and based on verified facts.

3. It was noted by a number of members that the rules and regulations of the Fund had not been adequately cited or taken into account in the drafting of the report and its recommendations. In addition, the view was expressed that the drafting of the report did not follow the International Standards for the Professional Practice of Internal Auditing, in particular standard 1220.A1, which requires internal auditors to exercise due professional care by considering the extent of the work required to achieve the audit objective, given that OIOS did not observe the session of the Board, which is its central act of governance. It was also observed that OIOS had largely failed to reflect the comments and views of all member constituencies and organizations of the Board.

4. The representatives of the United Nations participants believed that the rules and regulations had been correctly referred to and that members and their constituencies had been provided opportunities to have their views considered at every stage of the process.

5. A number of Board members observed that the audit had been conducted in a very short time frame that was not commensurate with the importance of the various governance issues it was examining. They underscored that they had been given a very limited amount of time for thorough consideration of the draft report's far-reaching recommendations.

6. The representatives of the United Nations participants stated that the time frame for the audit had been adequate and that Board members had been given the necessary time.

7. The Board takes its responsibility seriously and strongly believes that governance issues are of great importance and that their consideration is a common interest and concern of all Board members, as a means to contribute to improving efficiency and decision-making processes and enhancing the credibility of the Board for the benefit of the participants, constituencies and beneficiaries of the Fund.

8. **In the table below, the Board offers responses to the OIOS recommendations and requests that they be incorporated into the final report of OIOS to the General Assembly.** In accordance with the prevailing practice, the Board will follow-up on the accepted recommendations.

Responses by the Pension Board to the recommendations of the Office of Internal Oversight Services in its audit of the governance structure of the Board

OIOS recommendation	*Board response*
1. The Board should: (a) Establish clear terms of reference for its members outlining, inter alia, the desirable competencies for their appointment and any appropriate restrictions or limitations; (b) Review its current methodology for self-evaluation to make the exercise more effective and useful.	(a) The Board does not accept the recommendation. The membership of the Board is determined in accordance with the Regulations and rules of procedure. However, the procedures currently followed by constituent groups could be strengthened to ensure that their representatives fulfil their fiduciary and other responsibilities. (b) The Board accepts the recommendation.
2. The Board should: (a) Implement the General Assembly's request to submit proposals for fair and equitable representation of member organizations on the Board to reflect the actual distribution of active participants in the Fund, present and future trends in Fund participation and the changing nature of the Fund's member organizations; (b) Implement a rotation scheme that allows eligible member organizations to share the rotating seats in a fair and equitable manner.	The Board, with the exception of the representatives of the United Nations participants, does not accept the recommendation as currently formulated and will establish a working group to consider issues of participation, rotation and fair and equitable representation without any presumption of outcome and taking into account the Board's previous review on this matter.
3. The Board should determine the number of seats to be allotted to retiree representatives and facilitate their direct election as full Board members with voting rights to ensure transparent and democratic representation of beneficiaries and their interests.	The Board, with the exception of the representatives of the United Nations participants, does not accept the recommendation because this would undermine the tripartite nature of the Board and because retirees are not affiliated with member organizations.
4. The Board should establish appropriate mechanisms to avoid conflicts of interest between representatives of FAFICS and the management of the Fund.	The Board will establish appropriate mechanisms to avoid conflicts of interest between the management of the Fund and the constituent groups of the Board.
5. The Board should strengthen its governance of the Fund by: (a) Increasing the frequency of meetings of the Standing Committee to provide more effective oversight of the Fund's operations; (b) Entrusting the Standing Committee to act on the Board's behalf during periods when the Board is not in session; (c) Requiring the Board's other committees and the secretariat of the Fund to periodically submit their reports to the Standing Committee for better oversight and to reduce the burden on the Board's annual sessions.	The Board takes note of this recommendation and wishes to point out that section B of the rules of procedure defines the role of the Standing Committee, and that the possibility of increased frequency of meetings as necessary or when requested by the Board is already foreseen in rule B.4, which states: "The Standing Committee shall act, when necessary, on behalf of the Board when the Board is not in session. It shall decide individual cases referred to it, exercise a general control on the operations of the Fund and perform such additional specific functions as may from time to time be assigned to it by the Board. The

OIOS recommendation	*Board response*
	Standing Committee may on its own initiative and shall at the request of the Board or of any staff pension committee initiate preparatory work on any policy questions to the end that such questions be effectively considered by the Board."
6. The Board should retire its Assets and Liabilities Monitoring Committee and reinforce the interaction between the Committee of Actuaries and the Investments Committee to safeguard the Fund's long-term solvency.	The Board, with the exception of the representatives of the United Nations participants, does not accept the recommendation and decides to retain the Assets and Liabilities Monitoring Committee to satisfy the purposes and objectives outlined in section 1, paragraph 2, of its terms of reference, which states: "In order to assist the Board of the [Fund] in carrying out its responsibility for the overall management of the Fund, the [Assets and Liability Monitoring] Committee will work with the support of the Fund's management, the Investments Committee, the Committee of Actuaries and the Consulting Actuary to monitor the solvency of the Fund and to provide advice and recommendations to the Board with regard to risk management, funding policy, asset-liability management and investment policy."
7. The Board should, in consultation with its Audit Committee, strengthen the criteria for the Committee's membership, its independence and its means to hold the management of the Fund accountable for the accuracy and completeness of the information presented to it.	The Board accepts the recommendation.
8. The Board should: (a) Separate the roles of its Secretary and the Fund's Chief Executive Officer; (b) Establish its own secretariat that is independent from the management of the Fund; (c) Reconstitute the Executive Office such that it is directly responsible to both entities of the Fund for the provision of administrative services.	(a) and (b) The Board, with the exception of the representatives of the United Nations participants, does not accept the recommendation. The Board will establish mechanisms for ensuring proper segregation of roles, such as the setting of the Pension Board agenda. (c) The Board accepts this recommendation and will request the management of the Fund to resolve this issue as a matter of priority.
9. The Board should: (a) Establish mechanisms to ensure that annual performance evaluations of the Chief Executive Officer and the Deputy Chief Executive Officer are conducted and documented based on clear metrics to hold them accountable;	The Board accepts the recommendation.

OIOS recommendation	*Board response*
(b) Ensure that the secretariat of the Fund is held accountable for annually appraising the performance of its staff.	
10. The Board should take effective measures to ensure that the secretariat of the Fund sets the appropriate tone at the top with regard to integrity and ethical values.	The Board accepts the recommendation.
11. The Board should: (a) Determine the appropriateness of the distribution of resources between programme and support functions; (b) Strengthen monitoring to ensure that the secretariat of the Fund utilizes resources in accordance with legislative decisions.	The Board accepts the recommendation by noting that it relates to a long-standing practice of the Board. The Board will continue that practice and perform its functions in monitoring the use and distribution of resources as a matter of priority.
12. The Board should assess the composition and procedures of the search panel for the Deputy Chief Executive Officer in the light of the deviations in and apparent arbitrariness of the process and determine whether the search should be restarted to ensure integrity and fairness in a competitive exercise.	The Board does not accept this recommendation as currently formulated. The Board assessed the composition and the procedures of the search panel, which were formulated during the intersessional period, considered them to be appropriate and therefore proceeded with the recommendation to the Secretary-General for the selection of the Deputy Chief Executive Officer. The Board will reflect on the lessons learned for future search panels.
13. The Board should ensure proper succession planning for the positions of Chief Executive Officer and Deputy Chief Executive Officer to allow adequate time for their competitive selection based on pre-established procedures.	The Board accepts the recommendation.